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COPY NO. 16
OCI NO. 4865/55

2 June 1955

CURRENT INTELLIGENCE WEEKLY SUMMARY



DOCUMENT NO. 10
NO CHANGE IN CLASS. ☐
☐ DECLASSIFIED
CLASS. CHANGED TO: TS S ©
NEXT REVIEW DATE: 1985
AUTH: HP 70-2
DATE 26 Jun 79 REVIEWER:

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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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T H E W E E K I N B R I E F

PART I

OF IMMEDIATE INTEREST

**TITO COOL TO SOVIET BID
FOR CLOSE PARTY RELATIONS Page 1**

The Yugoslavs apparently gave Khrushchev's call for a rapprochement between the Yugoslav and Soviet Communist parties a cool reception. They insisted that the talks concern themselves only with relationships between the two governments. Tito is still stressing his interest in continuing good relations with the West. He has renewed his proposal for talks with the Western powers on military assistance. [REDACTED]

FORMOSA STRAITS Page 2

The Chinese Communists continue their efforts to foster belief in the possibility of successful Sino-American negotiations, although they have not modified their line on any substantive issue. Extensive work continues on airfields and supply routes in the Formosa Straits area. [REDACTED]

SOVIET-JAPANESE NEGOTIATIONS Page 3

Chief Japanese delegate Shunichi Matsumoto and Soviet ambassador Malik began talks on 1 June on normalizing relations between their two countries. The Soviet Union may seek an "Austrian-type" treaty designed to ensure Japanese neutrality. Such a proposal would play an important role in Japanese domestic politics. [REDACTED]

SOUTH VIETNAM Page 4

The Vietnamese government is still trying to establish its authority in the Hoa Hao area of western Cochinchina. The government's prestige and its longer-range plans for land reform and for resettlement of refugees require control over this important rice-producing area. Diem has of late appeared to be soft-peddling his proposal for a four-power conference in Saigon. [REDACTED]

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PART II

NOTES AND COMMENTS

25X1 Summit Conference Developments: This roundup of information relating to the summit conference includes: Soviet views on the agenda and on the site of the conference; Soviet pronouncements on a security pact and on German neutrality; British suggestions for pre-conference study groups; French views on neutrality; and the West German attitude on a security system. [redacted] Page 1

25X1 Berlin Truck Toll Negotiations: The Bonn government has agreed to the East German demand that talks on eliminating the Berlin truck toll take place between the West German and East German Transport Ministries. The West Germans had previously objected to such a course because they considered it would imply recognition of the East German regime. [redacted] Page 3

25X1 [redacted]

25X1 Chinese Nationalists Reinforcing Offshore Islands: The Chinese Nationalists have been reinforcing and are planning further reinforcements for their remaining offshore islands. The island garrisons alone could not survive a determined Chinese Communist assault. [redacted] Page 5

25X1 Agitation for Linguistic State in North India: Agitation by Sikh nationalists in the Punjab for creation of a linguistic state in north India has produced considerable unrest in this area and has led to the arrest of nearly 800 persons. The Indian government can control the situation. [redacted] Page 6

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25X1 Afghan-Pakistani Situation: Demobilization of Afghan army elements and mediation efforts by Moslem states have at least temporarily reduced tension in the Afghan-Pakistani dispute. Prospects for a settlement are still uncertain and failure to achieve a solution soon would probably give rise to new Pakistani pressure for removal of Afghan prime minister Daud. [redacted] Page 8

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Israeli-Egyptian Clashes: A three-hour battle on 20 May between military forces of Israel and Egypt in the Gaza strip has again raised tension in this area to a serious level. Tel Aviv is likely to order another raid in reprisal. [REDACTED] Page 9

Greece Renews Campaign for Cyprus: The Greek government is renewing its campaign in support of self-determination for the British crown colony of Cyprus. [REDACTED] Page 10

French North Africa: The French and Tunisian premiers on 29 May initialed the series of conventions which grant a measure of autonomy to Tunisia. Opposition groups are bending every effort, however, to persuade the French National Assembly to reject the accords. In Algeria, there is apparently no diminution in guerrilla attacks in the eastern part of the country despite the recent arrival of heavy government troop reinforcements. In Morocco, incidents of terrorism and disorder have sharply increased. [REDACTED] Page 11

Trieste Communists Rebel at Soviet Approach to Tito: The only critical reaction among Communist parties to the Khrushchev-Tito talks reported so far has been flat defiance on the part of the autonomous Trieste Communist Party. This group, with an estimated membership of 5,000, has long seen the small local pro-Titoist party as its chief enemy, and has also frequently been at odds with the Italian Communist Party. [REDACTED] Page 12

Implications of the Sicilian Elections: The Sicilian regional elections on 5 June will be the first important test of party strengths in Italy since the 1953 general elections. The Communists have no chance of winning a majority. Any increase of votes on the left, however, may lead to renewed pressure for the formation of a new government to the left of the present coalition. [REDACTED] Page 13

Communist Interest in Canada: An increase in attention to Canadian affairs has become evident since early this year in two leading Communist periodicals, Kommunist and the Cominform journal. [REDACTED] Page 13

Brazil Communists Expect to be Factor in Presidential Election: Elated by the success of their alliance with two important legal parties in the Sao Paulo majoralty election of 22 May, Brazil's outlawed Communists are apparently hopeful of exerting a significant influence in the presidential elections on 3 October. [REDACTED] Page 14

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PART III

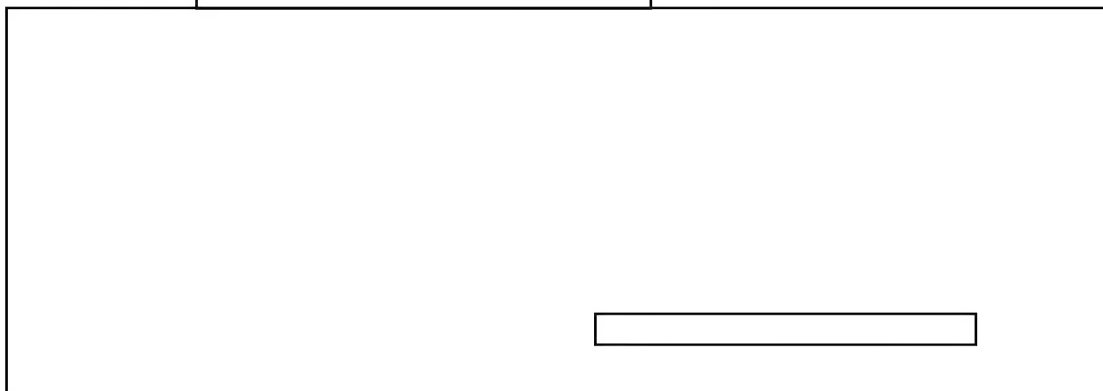
PATTERNS AND PERSPECTIVES

THE SOVIET ATTITUDE ON EUROPEAN SECURITY AND ON GERMANY. . . Page 1

25X1 The next few months will bring new Soviet proposals on the problems of European security and Germany designed to reduce the effectiveness of the American military role in Europe and to delay or limit West German rearmament within NATO. These will probably include a proposal for troop withdrawal from Germany and possibly for the limitation of the armed forces of East and West Germany, as well as a new plan for German unification and free elections. The USSR is likely to continue to press for East-West German talks and may on its part initiate direct talks with Bonn. [REDACTED]

SAAR STILL KEY TO FRENCH-GERMAN CO-OPERATION Page 5

25X1 Assumption of formal responsibility for the Saar territory on 12 May by the Western European Union considerably narrows the area for major French-German policy differences. The territory will continue to be a source of trouble, however, unless current proposals for a French-German economic "partnership" can be carried out rapidly. [REDACTED]



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PART I

OF IMMEDIATE INTEREST

**TITO COOL TO SOVIET BID
FOR CLOSE PARTY RELATIONS**

The Yugoslavs apparently gave Khrushchev's call for a rapprochement between the Yugoslav and Soviet Communist parties a cool reception. They insisted that the talks concern themselves only with relationships between the two governments.

Besides placing the blame for the 1948 break on Beria and "other enemies of the people," Khrushchev's speech at the Belgrade airport on 26 May called for the re-establishment of party ties.

He said that "it is possible for parties which are guided by Marxist-Leninist teaching to reach full mutual understanding between themselves because they have a single aim--the struggle for the interests of the working people, working peasantry, and all workers."

While the Soviet Communist Party's first secretary said that the USSR "fully understood" Yugoslavia's desire to develop relations with all states of the West, he appeared to be telling the Yugoslavs that they were completely welcome within the Sino-Soviet bloc.

Khrushchev seemed to be talking to the Yugoslavs primarily as Communists, who must inevitably feel isolated in a capitalist world and who should be willing to collaborate with the Sino-Soviet bloc as an independent Communist power.

The Soviet leaders may have felt that a public Soviet apology to Tito would put him under pressure from others in his party to return to the Communist fold.

The Yugoslav press has strongly indicated that Yugoslavia is interested only in "interstate" improvement of relations, and Yugoslav officials have "leaked" to Western press representatives that Belgrade does not "buy" the explanation that Beria was responsible for the break.

Borba's editorial on 28 May rather pointedly accepted "that portion" of Khrushchev's speech calling for an improvement in governmental relations on a basis of equality, but made no reference to the parts discussing the Soviet apology for the break. It stressed instead that Yugoslavia's policy of "nonalignment with any ideological bloc" stems from its firm conviction that the division of the world into such blocs is not leading to peace.

Tito is still stressing his interest in continuing good relations with the West by preparing for new talks on international problems later this month.

Since the level of the Soviet delegation and the tone set by Khrushchev's opening speech deeply involve Soviet prestige, the USSR is likely to grant Yugoslavia enough concessions outside the field of party affairs to enable the

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conference to show some tangible accomplishments.

Agreement will probably be reached on such issues as Yugoslavia's financial claims against the Soviet bloc since 1948, some expansion of Yugoslav-Soviet trade, repatriation of Yugoslav nationals held by the Satellites, and possibly Soviet nuclear aid. The visit of Khrushchev and the other

Soviet leaders to the Yugoslav atomic energy research installation suggests that the USSR will grant technical assistance in this field.

In any case both sides will be eager to issue a communiqué indicating general agreement on such problems as peaceful co-existence and noninterference in internal affairs of other nations.

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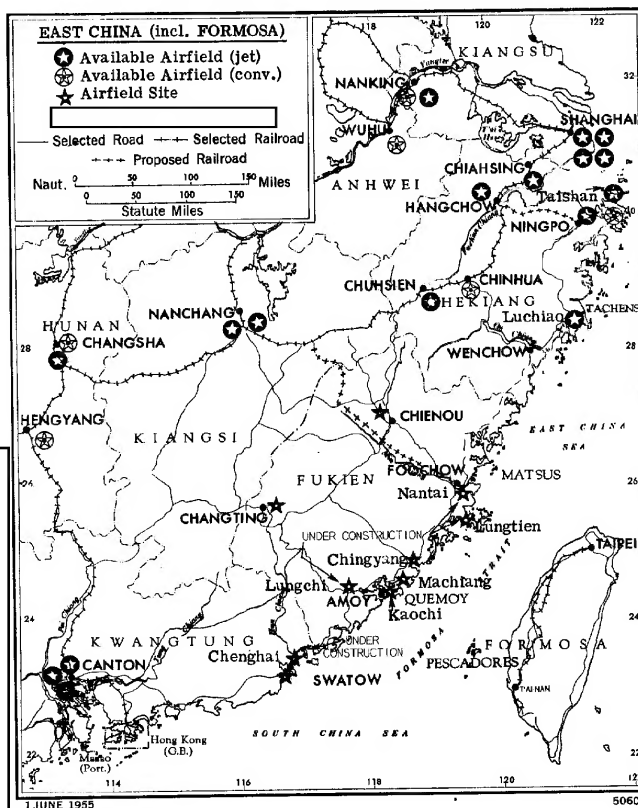
FORMOSA STRAITS

The Chinese Communists continue to encourage belief in the possibility of successful Sino-American negotiations. However, they have apparently failed to modify their hard line on any substantive issue.

Krishna Menon, since returning from Peiping, has reaffirmed his conviction that negotiations would be worthwhile. His only evidence to support such a view is the release of the four American pilots, a long-expected gesture.

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tion" of Formosa by negotiations with the undefended Chinese Nationalists after a negotiated withdrawal of American forces from the area.

The Chinese Communists have definitely not renounced the use of force against Nationalist China and are continuing their extensive work on airfields and supply routes in the coastal area.

Another week has passed without significant combat activity in the Formosa Straits, and it still seems probable that Peiping will not undertake major military action while the possibility of Sino-American talks is being explored.

Chou told Menon that Peiping would consider talking with Chiang Kai-shek an "internal" matter, [redacted]

These statements reflect the Chinese Communist hope of effecting a "peaceful libera-

SOVIET-JAPANESE NEGOTIATIONS

Chief Japanese delegate Shunichi Matsumoto and Soviet ambassador Malik began talks on 1 June on normalizing relations between their two countries. The Soviet Union may seek an "Austrian-type" treaty for Japan, designed to obtain Japanese neutrality.

A neutrality proposal would have a profound impact on many Japanese and would play an important role in Japanese domestic politics.

Prime Minister Hatoyama had declared previously that the government would resist it. Foreign Minister Shigemitsu's top aid, Masayuki Tani, told Ambassador Allison on 25 May that Japan would co-ordinate any reply to a proposal of this nature with the United States.

Japanese Socialists as well as conservatives are generally agreed on the desirability of seeking a solution to all outstanding issues, including the restoration of territories. There is a wide divergence of views, however, on what course Japan should adopt if the USSR refuses to discuss the subject at London.

The Japanese delegation will be leading from weakness in view of Hatoyama's expressed willingness to settle on almost any terms. Tani admitted as much to Allison when he said that domestic political considerations might cause Japan to back down on its demands. Tani added firmly, however, that Japan would resist any Soviet attempt to bring Communist China into the discussions.

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In any case, Tani stated that final action at the negotiations would not be taken pending determination of any changes which might take place in American policy following the proposed meeting "at the summit."

The result of the negotiations will be important for the Hatoyama government. Despite the recent clamor for relations with the Orbit, the Japanese people may be expected to react violently against any sacrifice of the national interest. Domestic reaction will depend on how skillful the Japanese negotiators are in arranging Soviet co-operation

for a face-saving agreement and on Hatoyama's ability to sell it to the Diet.

So far, no strong opposition to Hatoyama's soft policy toward the Soviet Union is in sight. Rumblings of discontent have been reported among top business leaders, and the executive director of Japan's largest news agency warned in an international broadcast that the public did not want normalization of relations at any cost. The extent of this feeling will probably not become known until the negotiations are actually in full swing.

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SOUTH VIETNAM

The Vietnamese government's efforts to establish its authority in the Hoa Hao area of western Cochinchina continue to hold the spotlight. Effective control over this important rice-producing area is important not only to the government's prestige but to its longer-range plans for land reform and the resettlement of refugees.

The sporadic exchange of fire that has characterized the government-Hoa Hao dispute thus far can flare into open battle at any time.

American military observers comment that in such an event the army's task would be more difficult than its action against the Binh Xuyen but they believe it is capable of handling the job.

The government is apparently still hoping, however, that its show of force will be sufficient to induce capitulation of the Hoa Hao rebels. It appears to be concentrating its negotiating efforts on General Soai, the Hoa Hao leader with the greatest number of troops under his command.

Meanwhile, the security situation in central Vietnam

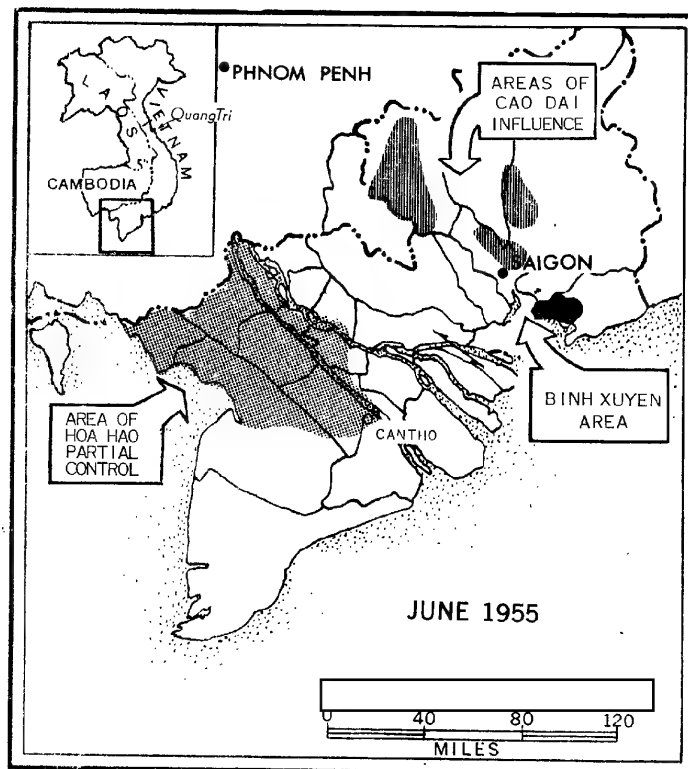
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The government is going forward with plans for a census, a necessary preliminary to elections for a national assembly, which can probably not be held before fall at the earliest. A government official has suggested that the Vietnamese position, in talks this summer with the Viet Minh on elections for unification as specified at Geneva, will be that definitive proposals must await the decision of a duly elected assembly.

Diem has of late appeared to be soft-peddling his proposal for a four-power conference.

One of the possible agenda topics for the conference, the status of the French Expeditionary Corps, may soon become less pressing to the Vietnamese. The removal of nearly all the large French Union garrison in Saigon to points nearer the coast, begun on 1 June, will assuage Vietnamese feelings. Meanwhile, there are suggestions from Paris that the repatriation of the expeditionary corps may be accelerated.

and in the Saigon area has been generally stable.

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PART II

NOTES AND COMMENTS

Summit Conference Developments

S o v i e t U n i o n

Conference Agenda

In a note on 26 May, the USSR accepted the Western proposal for a heads of governments meeting, but sharply attacked American suggestions that the status of the Satellites should be discussed. The USSR said these suggestions amounted to an attempt to "deliberately doom the four-power conference to failure."

The note repeated the theme of a Pravda editorial of 22 May and was intended to make it absolutely clear that, as Pravda said, "there can be no question" of discussing the status of the Satellites in a conference.

The note said that, provided the heads of governments recognized the necessity of excluding the status of the Satellites, they could establish the agenda for the conference as they wished.

The Pravda editorial listed "vitally important problems" to be discussed, including "cessation of the cold war," a reduction in armaments and armed forces, a ban on atomic and hydrogen weapons, the creation of an "effective system of collective security," and the establishment of "normal relations."

New Times, in a list of problems described as "ripe for solution" also included troop withdrawal from Germany, liquidation of foreign military bases, the end of discrimination in international trade, a settlement of Far Eastern

problems, and respect for sovereignty and territorial integrity in the Far East.

Site of Conference

The Soviet note of 26 May proposed Vienna as a site for the conference and said that the date could be agreed on later..

It did not repeat the Pravda charge of 22 May that the Western powers were trying to raise technical obstacles to the conference by making unreasonable demands with respect to the place and duration of the conference.

Pravda objected to Lausanne as a site on grounds of inadequate facilities there, and said that the two- or three-day duration suggested by Western officials would not give time enough for "serious consideration of any urgent international problems."

The Soviet delegate to the UN told [redacted] recently that the Soviet objection to Lausanne as a site was due to the assassination of a Soviet diplomat there in 1923, while Lugano was unacceptable only because the USSR had no consulate there.

Views on Security Pact

There have been several hints during the last week of Moscow's attitude toward European problems likely to arise at the conference.

Yugoslav vice president Kardelj [redacted] believed, on the basis of talks

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with Soviet leaders there, that Moscow would not press for neutralization of Germany or a belt of buffer states, but that its real objective would be to make some progress with the Molotov security plan. Kardelj said that disagreements had arisen between the Yugoslavs and the Russians over the nature of the security plan because the USSR wanted to superimpose it on the existing Eastern and Western security pacts.

This would contradict the language of the Warsaw agreement, emphasized in Soviet propaganda, that the Soviet-Satellite security pact would be dissolved if an all-European system of security were set up.

Comments on a Neutral Belt

A spokesman for the Soviet embassy in East Berlin was quoted by the newspaper Frankfurter Allgemeine on 23 May as denying that the USSR is interested in a neutral belt across Europe. The paper's Berlin correspondent, who is considered reliable, quoted the Russian to the effect that a neutral belt was militarily ineffective in an age of jets and guided missiles, and that the neutral belt concept was an American-designed idea intended to change the status of the Satellites.

The Soviet spokesman was further quoted as saying that the USSR favored neutralist tendencies only because neutral countries would be in a better position to join a collective security system.

Most of the neutral belt speculation has originated in the West. It has been reported in the Soviet press but has not been specifically endorsed by Moscow. This comment by

the Soviet spokesman probably reflects a recognition that the belt concept has some disadvantages because it can stretch both ways.

The Soviet official also said that a European security organization could coexist with NATO, but that West Germany would have to be excluded from the latter if both parts of Germany were to join the all-European system.

Neutrality Terms for Germany

The East German Communist paper Neues Deutschland on 26 May defined the type of neutrality that a united Germany should follow more precisely than Communist spokesmen have done for some time.

Neutrality as seen by the Communists would mean prohibiting German participation in any military bloc, abolishing foreign bases in Germany, and restricting Germany to "the armed forces required for her defense."

The paper also noted that the recent Soviet disarmament proposals define the possibilities of limiting armed forces in general, as well as those which Germany might eventually possess. (Also see Part III, p. 1)

Propaganda Treatment

During the past week, Moscow devoted 12 percent of its total broadcast time to the subject of four-power talks. Approximately half of this output dealt with the text of the Soviet note of 26 May.

Britain

Shortly after the Conservative election victory appeared certain, British Foreign Office officials, who had previously

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declared themselves unwilling to discuss substantive matters relating to the conference, proposed the establishment of study groups to examine the Western position and formulate specific proposals.

They suggested a four-power study group to meet in Bonn to study German problems, particularly the Eden plan and its ramifications.

The British also suggested a three-power group to meet in Paris to discuss the problems of European security and disarmament.

The general British view has been that the West must be more forthcoming than at the Berlin conference, that there may be a long series of meetings, that the problems will call for strenuous negotiation, and that the West should remain flexible and not give its position away in advance.

F r a n c e

French officials have consistently expressed fear that the concept of neutralization could be very dangerous for the West if indiscriminately applied. The non-Communist press in France has treated the idea of a neutralized bloc in Europe with considerable reserve.

W e s t G e r m a n y

Chancellor Adenauer on 25 May told his principal ambassadors that the United States must participate in a new col-

lective security system which he advocates in addition to NATO.

Since 1953, Adenauer has considered such a security system an alternative to German neutralization. This system, superimposed on the Western alliance, would include the Soviet Union and its Satellites.

The idea was restated by Ambassador Blankenhorn in the recent London preparatory meetings for four-power talks.

Adenauer also told the ambassadors that the neutralization of Germany is out of the question.

Addressing the Bundestag on 27 May, Adenauer made a strong plea that the United States take the lead in proposing general and controlled disarmament. He views this as one of the prerequisites to a lessening of tension that might facilitate German unification. The Bundestag approved Adenauer's program, with only the opposition Social Democrats dissenting.

F a r E a s t

Chinese Communists Remain Silent

As of 29 May the Chinese Communist press had made no mention of projected summit talks except for carrying one TASS item. The American consul general in Hong Kong comments that this probably reflects a decision to lie low for the time being and let Moscow carry the propaganda ball.

Berlin Truck Toll Negotiations

The West German government proposed on 27 May that talks be held between experts of the

West and East German Transport Ministries, a proposal similar to one made by East Germany in

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April. Representatives of the two ministries are expected to meet on 2 June.

The West German government had previously opposed negotiations at this level and had favored use of the existing Interzonal Trade Committee in order to avoid giving the appearance of recognizing the East German regime. One of the major reasons for East Germany's harassing campaign against West Berlin and the imposition of the truck toll has been to force West German recognition.

The East Germans met Bonn's concession on this point by adding a new procedural complica-

tion, suggesting that West German transport representatives call at the East German Transport Ministry to make arrangements for the meeting. The West Germans agreed to send their representatives to the East German ministry, but they still insist that this does not imply any recognition of the East German regime.

Pressure from West German commercial interests for the resumption of full trade with East Germany, Western reluctance to undertake extreme retaliatory measures, and fear of possible additional East German pressures, appear to have forced the Federal Republic to make this concession.

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Chinese Nationalists
Reinforcing Offshore Islands

More than 700 regular troops and three batteries of antiaircraft artillery were shipped from Formosa last week to strengthen Chinese Nationalist garrisons on the offshore islands. These troop movements are part of Taipei's continuing effort, since March, to increase Nationalist defensive forces on islands in the Matsu and Quemoy groups.

The Nationalists have deployed on the offshore islands approximately 76,700 regular troops, including six of Taipei's best divisions, 18 battalions of field artillery and two tank battalions.

Most of these forces--approximately 60,000 regulars, 171 artillery pieces, and more than 100 light tanks--are concentrated in the Quemoy Islands. In the Matsus and on Wuchiu, the Nationalists have deployed about 16,700 regular troops with five battalions of field artillery.

The Nationalists have also sought to improve the physical defenses of all their offshore island garrisons. Belts of moored contact mines have been planted in the nearshore waters of both the Quemoy Islands and the Matsus. Additional obstacles have been constructed on the

beaches and trench systems have been improved. On Quemoy alone about 400 tons of barbed wire have been added to the beach barrier system.

Despite improvements in the island defenses, none of the garrisons is presently capable of withstanding a determined Chinese Communist assault unless the defenders receive extensive outside assistance. The minor islands held by the Nationalists are extremely vulnerable to attack and could be expected to fall in a short time under large-scale amphibious attacks.

The main island of Quemoy would be costly for the Communists to take, but the garrison would probably be overcome unless the defenders received massive air and naval support. Moreover, the Nationalists lack the capability of evacuating more than a small fraction of their offshore island troops with their own lift under combat conditions.

Loss of the offshore island garrisons would be a heavy blow to over-all Nationalist military strength. The troops already on the islands represent an investment of more than one quarter of Taipei's total ground

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Disturbances of this type have for years periodically embarrassed the government of India. The current phase started soon after the extremist followers of 71-year-old Tara Singh won an unexpected and resounding election victory in December 1954, giving them control of socio-religious Sikh organizations in the Punjab area.

The movement received added impetus this spring during the visit of the States Reorganization Commission, which has been touring India for a year collecting testimony on the question of creating additional linguistic states.

Assisted by individuals dissatisfied with the national

and state Congress Party organization, as well as by Communists, Tara Singh's movement is apparently gaining momentum.

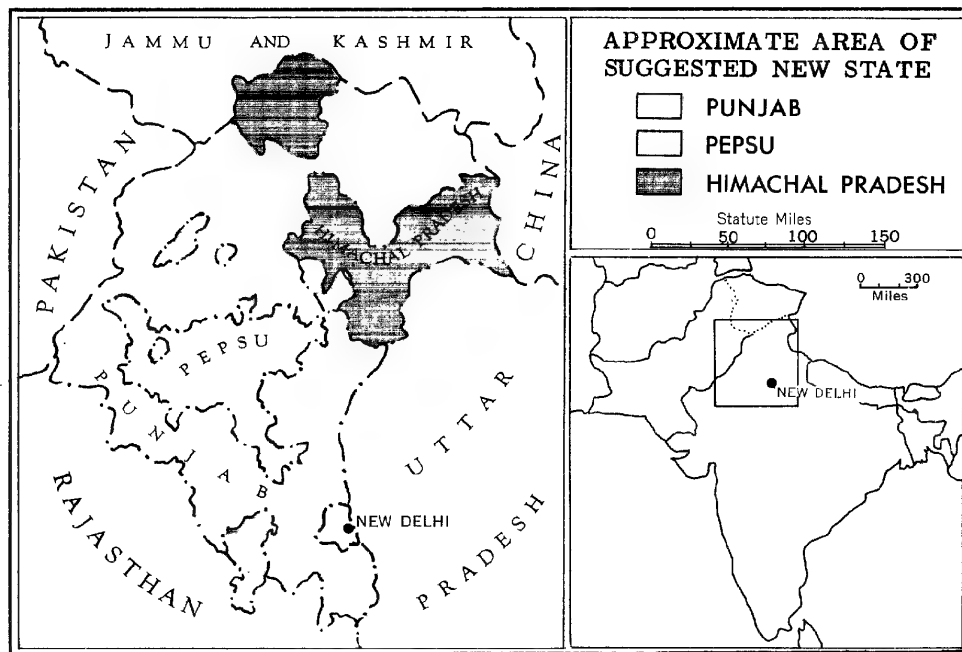
It will probably continue to be a thorn in the side of the Nehru government for some time to come.

The government probably will retain control and continue to have the support of the majority of the population of the area, of which the Sikhs represent only 30 percent and of which the followers of Tara Singh represent an even smaller proportion.

It is unlikely, therefore, that in the near future a new linguistic state will be created in north India.

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Afghan-Pakistani Situation

Demobilization of Afghan army elements and mediation efforts by Moslem states have at least temporarily reduced tension in the Afghan-Pakistani dispute. Prospects for a settlement are still uncertain and failure to achieve a solution soon would probably give rise to new Pakistani pressure for removal of Afghan prime minister Daud.

The mediation efforts have provided Prime Minister Daud with a badly needed breathing spell, during which he may have been able to consolidate his position in the face of popular unrest created by mobilization, the unwillingness of the army to support him in his quarrel with Pakistan, and pressure from other members of the royal family.

Possibly two attempts at mediation are under way. The efforts of a "mediation commission" composed of Saudi Arabia, Turkey, Iran, Iraq, and Egypt have been overshadowed by the announcement by Saudi prince Musaid Ibn Abdur Rahman on 29 May that he has reached agreement with both countries on "the main details and fundamentals for the solution of the conflict." It is not clear whether Musaid is working independently or in co-operation with the five-member "commission."

Prince Musaid's public announcement is so generalized that it is almost meaningless.

Whatever agreement may have been reached would pertain only to matters growing out of the demonstrations on 30 March against the Pakistani diplomatic missions in Afghanistan and the Afghan consulate in Peshawar. It would not touch on Pushtoonistan or other basic issues outstanding between Karachi and Kabul.

The Pakistani Foreign Ministry, by sending Ambassador Col. A. S. B. Shah back to Kabul on 30 May, gave the impression that it continued to be willing to explore peaceful means of a solution.

If the Saudi Arabian proposals fall through or negotiations are unduly prolonged, direct and intensified Pakistani pressure for the removal of Prime Minister Daud is apt to reappear. Even if the immediate problems arising from the 30 March demonstrations are solved, there is unlikely to be any significant relaxation in Afghan-Pakistani tension while anti-Pakistani Prime Minister Daud remains in office.

Meanwhile, an Afghan mission has arrived in Moscow to discuss a freight transit agreement under which Afghan import and export traffic could pass through the USSR rather than Pakistan. Kabul may hope that this action will encourage Pakistan to modify its position and the West to withhold its support from Pakistan.

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Israeli-Egyptian Clashes

Mediation efforts by the United Nations' truce teams since the Israeli attack in Gaza of 28 February have failed

Egyptian troops continue to take pot shots at Israeli personnel and to place mines on patrol tracks within Israeli territory, while Israeli forces continue provocative patrolling close to the demarcation line.

Egypt had accepted Burns' proposals with certain reservations. Israel had agreed to three of the points but rejected the suggestion of joint patrols along the demarcation line.

General Burns has received little encouragement from his latest efforts.

Interviewing Prime Minister Nasr in Cairo on 1 June, Burns found the Egyptian leader in a resigned mood. Nasr admitted he could not now keep Egyptian border troops from firing on Israeli personnel, and stated that "if the Israelis want war, I suppose it will have to come."



Approved For Release 2005/01/27 : CIA-RDP79-00927A000500090001-9

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Nasr's only proposal was a halfhearted suggestion that troops on each side be withdrawn one kilometer behind the demarcation line.

Tel Aviv is likely to launch another strong raid like that in February in reprisal for its military and civilian casualties in the 30 May action, unless there is a strong condemnation by the United Nations or Western powers of Egypt's

border activity. Cairo does not appear to have adequate control of its military personnel in the Gaza outposts.

According to General Burns, Western intervention under the American-British-French guarantee of 1950 may be required unless pressure is put on both Israel and Egypt at once to take necessary steps to eliminate the immediate sources of border incidents.

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Greece Renews Campaign For Cyprus

The Greek government is intensifying its campaign in support of self-determination for the British crown colony of Cyprus. This effort is highlighted by Athens' exploitation of the recent incident involving the landing on Cyprus of a Greek air squadron returning from Korea.

Since the UN discussion of Cyprus last December, Athens has tried to preserve its freedom of action on the problem, but it is virtually committed to seeking a definitive settlement in the UN General Assembly this year.

Greek public opinion will probably demand that the government take a stronger position than previously. Although a face-saving formula was accepted with reluctance last year, it is unlikely that another could be adopted without endangering the tenure of the Papagos government and straining Greece's relations with its Western allies.

Public indignation in Greece over the Cyprus colonial government's refusal to permit

Greek airmen returning from Korea to attend a reception given in their honor by the Greek consul general will probably continue for some time. The visit of British naval vessels to Greece scheduled for early June has been canceled by mutual agreement. The Greek general staff has also requested the cancellation of a scheduled NATO exercise involving Greek and British units.

Continuing outbreaks of Nationalist violence on Cyprus are likely to keep Greeks in Greece and in Cyprus in a belligerent mood and prevent any real conciliatory gestures by Britain.

Britain's insistence on treating the Cyprus issue as an internal matter, solvable in terms of a constitution providing for limited self-government, has restricted London's freedom of action almost as much as popular sentiment has limited that of Athens.

Nevertheless, Britain is probably less uncompromising than the Turks, who have been actively campaigning against

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any union of Cyprus with Greece. With no prospects for a solution, the situation tends to arouse latent Greek and Turkish

animosities, thus lessening effective co-operation in the Balkan alliance as well as in NATO.

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French North Africa

Tunisia: In the face of opposition from French residents in Tunisia and extremist nationalist groups, the French and Tunisian premiers on 29 May initialed the series of conventions which grant a measure of autonomy to Tunisia.

Formal signature is reported to be scheduled for early June, after certain minor points have been adjusted. Action by the National Assembly is still pending, and opposition groups are bending every effort to persuade it to reject the accords.

The return on 1 June of Tunisia's foremost nationalist leader, Habib Bourghiba, creates special security problems. Demonstrations in celebration of the moderate Bourghiba's return could involve clashes with fanatic nationalist groups, and extremist French settler organizations are expected to attempt his assassination.

Disorders of any magnitude prior to assembly consideration of the accords would lessen the possibility of their approval.

Algeria: There seems to have been no diminution in the guerrilla attacks in eastern Algeria despite recent heavy government troop reinforcements.

Additional units are slated for transfer to Algeria, and the French minister of the interior is reported to be contemplating formation of "militias"

of armed settlers to combat the terrorists. Formation of such militias would only increase violence and unrest.

Morocco: Incidents of terrorism and disorders in Morocco sharply increased during the past two weeks.

In retaliation for the prolonged closing of native shops, local authorities forcibly expelled some 250 merchants from Casablanca, compelling them to abandon all possessions. Both the French and the Moroccan Chambers of Commerce and Industry in Casablanca protested this action.

A statement by Pierre July, French minister for Moroccan and Tunisian affairs, to the Foreign Affairs Commission of the National Assembly on 26 May indicates that the government contemplates replacing Moroccan sultan Mohamed ben Arafa either with a regency council or a new sultan.

Minister July's statement that it would be difficult to find a new sultan, since no member of the traditional ruling family was qualified, suggests that a regency may be the next device attempted.

Establishment of a regency, which has been the subject of considerable press speculation for months, probably would not occur before the Tunisian accords are approved.

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Unless accompanied by genuine concessions in the direction of Moroccan desires for autonomy,

it would be unlikely to lessen substantially the current tension in Morocco.

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Trieste Communists Rebel
At Soviet Approach to Tito

The only critical reaction among Communist parties to the Khrushchev-Tito talks reported so far has been flat defiance on the part of the autonomous Trieste Communist Party.

This group, with an estimated membership of 5,000, has long seen the small local pro-Titoist party as its chief enemy, and has also frequently been at odds with the Italian Communist Party--most recently on the occasion of Togliatti's visit to Trieste on 17 May.

Following Khrushchev's Belgrade speech, Vittorio Vidali, secretary general of the Trieste Communist Party, reportedly declared that he would not change his party's line toward Tito and the local Titoists even if the Italian Communists tried to force him to do so.

Other Trieste Communist leaders have been almost unanimous in bitterly denouncing the new Soviet tactic, and the party newspaper came out with a strong article saying it "could not be in solidarity with the statement of Comrade Khrushchev." On 1 June, the Communist trade unions in Trieste announced their support of Vidali's position.

The attitude of Vidali and his party is consistent with the intransigent opposition they have shown to the pro-Tito Communists and all other local fronts and groups that have sided with Tito. This opposition has somewhat abated, at least publicly, since the Trieste settlement of last fall.

It is likely that the Soviet overtures to Tito will weaken Vidali's party and conversely strengthen pro-Tito supporters in Trieste. The Italian Communists have as yet given no official indication of their position on the new Soviet-Tito relationship, but they appear to support the Soviet approach.

Luigi Longo, acting chief of the Italian party, on 1 June publicly "expressed amazement" over the revolt of the Trieste Communists and appealed to their leaders to reconsider "their hasty and superficial judgment."

In view of the pressure from the Italian Communists and Moscow, it is possible that Vidali and his party will "reconsider" their position. In the absence of an attractive alternative, they may eventually fall in line.

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Sicilian Election Campaign

The Sicilian regional elections on 5 June will be the first important test of party strengths in Italy since the 1953 general elections.

The Christian Democrats control the present regional government in alliance with the Monarchists and neo-Fascists.

The Communists have been conducting an aggressive "grass roots" campaign in an evident effort to regain the prestige they lost in recent shop steward elections on the mainland. They have no chance of winning a majority.

The Communists have been playing up their party's "defense of peace" and its stand against foreign exploitation of Sicily's oil and mineral resources.

There are indications that the Communist Party has absorbed the Sicilian separatists, a group which advocates independence from the Rome government and which for the first time in the postwar period has failed to enter a ticket of its own.

The Nenni Socialists, who in previous Sicilian elections had been allied with the Communists, are running separately this year. They are making a bid for an alliance with the Christian Democrats in the new Sicilian regional assembly to institute a new "social era."

The Christian Democrats, meanwhile, have been stressing the economic and social progress in Sicily and are expounding a "policy of hope" for the future.

Their prospects for large gains have suffered somewhat from the bitter quarrels of the past year between the local Christian Democratic "old guard" and the younger party officials who are proteges of national party secretary Fanfani. Although these quarrels have apparently been smoothed over, continued bitterness may lead to a relatively high number of abstentions.

The Christian Democrats may gain from two to 5 seats over their present 30, but will still need support from other parties to maintain control of the 90-seat assembly.

The Communists and the Nenni Socialists may also gain slightly, while the smaller parties of the center and right are expected to suffer losses.

The fate of the Scelba government may be affected by the outcome of the elections. An increase of votes on the left, especially if combined with the disappearance in Sicily of the small center parties in Scelba's coalition, may lead to renewed pressure for the formation of a new government to the left of the present coalition.

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Increased Communist Interest In Canada

An increase in attention to Canadian affairs has become

evident since early this year in two leading Communist periodicals, Kommunist, published

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in Moscow, and the Cominform journal, published in Bucharest. These publications provide authoritative theoretical and tactical guidance to Communist parties throughout the world, among them the small Canadian Labor Progressive Party.

The Cominform journal last October stressed that Canada, like the other British dominions, had fallen into the American sphere, and that the national Communist party must be strengthened to lead the working class in developing a broad national front.

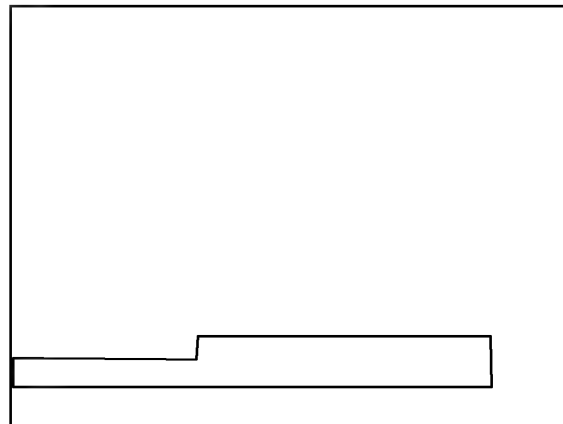
This publication has already this year devoted four times as much space to Canadian affairs as it did in the whole of 1954, including extensive and detailed analyses by two Canadian party leaders.

In March, the leading Soviet theoretical organ Kommunist printed its first lengthy analysis since the war of Canadian internal affairs.

The present line, while continuing anti-American and nationalist themes long current in Canadian Communism, emphasizes that since the war there has been a particularly sharp economic competition between Britain and the United States.

Kommunist also acknowledges Soviet foreign policy interest in Canada's role in American military and political strategy.

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Brazil Communists Expect to Be Factor in Presidential Election

Elated by the success of their alliance with two important legal parties in the Sao Paulo mayoralty election of 22 May, Brazil's outlawed Communists are apparently hopeful of exerting a significant influence in the presidential elections on 3 October.

In the Sao Paulo election, the Brazilian Communist Party, which is estimated to have 120,000 members, joined in an alliance with the Social Progressive Party (PSP) and the Labor Party (PTB).

The PSP, the fourth largest party in Brazil, is the political machine of the opportunistic Adhemar de Barros, a former governor of Sao Paulo State and potential presidential candidate. The PTB is the party of the late president Vargas, now headed by his former labor minister, the demagogic Joao Goulart.

As an active partner in the "populist-labor" front, the Communists were given an opportunity to disseminate propaganda under the protection

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of legal parties [redacted]
[redacted]

According to a press statement of the Communist Party's secretary general, the party is determined in its opposition to all the presidential candidates formally nominated thus far, including Social Democrat Juscelino Kubitschek, whose present running mate is Goulart.

The Communists apparently hope that a new presidential candidate more acceptable to them will be forthcoming. The two most evident possibilities are Goulart and Adhemar de Barros.

Prior to the Labor Party's nomination of Goulart on the Kubitschek ticket in April, Communist elements attempted to persuade the former labor minister to run for the presidency on a straight Labor Party ticket with Communist support. He was noncommittal, but

authorized the Communist emissaries to promote the idea at the Labor Party convention. Despite this Communist effort, the Labor Party convention voted unanimously to tie his candidacy to that of Kubitschek.

The Communist press has since criticized Goulart for his alliance with Kubitschek, and the party apparently still hopes that he will withdraw from the Kubitschek ticket and head a Communist-supported slate. Even if he refused to do so, it is possible that a currently rumored split in the Labor Party might provide a candidate acceptable to the Communists.

Adhemar de Barros is also known to have presidential aspirations. He has publicly professed anti-Communism, but has in the past accepted Communist help and might do so again in the coming election, particularly in view of his party's success while allied with the Communists in the 22 May election. [redacted]

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PART III

PATTERNS AND PERSPECTIVES

THE SOVIET ATTITUDE ON EUROPEAN SECURITY AND ON GERMANY

European security and Germany are the two closely related issues likely to dominate most of the discussions at a big-four meeting at the summit. Germany, located in the heart of a divided Europe, must be at the heart of any proposals for settling the problems of Europe.

The next few months will bring new Soviet proposals on the problems of European security and Germany which will be intended to be more attractive than the shopworn plans the USSR has been peddling in vain for the last few years.

Recently there have been signs, most notably in the Austrian settlement, the new disarmament proposals, and the visit to Belgrade, that Soviet diplomacy has become more flexible, and that the USSR will make some concessions on substantive issues. Moscow realizes that the West Europeans are eager for negotiations and that its recent concessions, particularly in Austria, have put them in a receptive mood.

Any new Soviet proposals will have two objectives:

(1) To reduce the effectiveness of the American military role in Europe by arousing European opposition to American troops and bases.

(2) To delay or limit West German rearmament within NATO, primarily by influencing West German opinion.

In working toward these objectives, Moscow is trying to undermine Western European support for NATO by persuading the Western Europeans that the Soviet military threat has faded.

A Soviet Security Plan

The USSR is likely before long to produce a plan for European security and German unification basically similar to that offered at the Berlin conference in January 1954, but restyled to have a greater appeal.

The plan for European security which Molotov presented at Berlin was essentially a nonaggression and mutual security treaty.

This time, the USSR may add a proposal that all or most foreign troops and bases be withdrawn from Europe. It will probably urge that a new European security organization completely replace NATO, WEU and the Orbit security organization.

The treaty establishing the latter, signed at Warsaw, provides for its dissolution if an all-European security group is formed. As part of its world-wide disarmament plan, Moscow may also propose specific arms limitations for all European countries.

Proposals on Germany

If a security plan is to make any strong impression on public opinion in Germany, where the key decisions on implementing West German rearmament will be made, the USSR must offer a solution for the difficult problem of German unity.

Unification: The USSR may, as it did at Berlin, provide only a fragile link between its security and German plans, and may again assert that a security system is the first step toward German unification. The Soviet leaders are likely to feel, however, that the neutrality of Germany, which the USSR is almost certain to demand as the

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price of unification, would be more palatable if it were included in a general European security package.

Although Moscow will hold out hopes of unification on the basis of neutrality, it probably realizes that neutrality would be unrealistic as a long-term policy for a powerful, united Germany.

Molotov told a member of the Austrian delegation in Moscow that paper guarantees were all right for a small nation but were insufficient for a major power, and Mikoyan said that a settlement involving 7,000,000 people could not form a precedent for settling a problem involving 70,000,000.

This realization that German neutrality might not last long, once unification had been permitted, would be a major factor in Kremlin deliberations as to whether or not actually to agree to the unification of Germany.

There are a number of offers which the USSR might advance to sway German opinion short of committing itself irrevocably to unification on the basis of neutrality.

Troop Withdrawal: The USSR will almost certainly renew its proposal for withdrawal of occupation troops from Germany and perhaps will expand it to include troop withdrawal from Europe.

Molotov first proposed troop withdrawal from Germany at the Berlin conference, and it has been officially proposed several times since, most recently on 10 May.

Molotov originally proposed troop withdrawal as a prerequisite to free elections, to preclude foreign "interference and pressure" during the elections. But it has been

most often described, and was phrased in the 10 May proposals, as a measure for the "relaxation of international tension and the establishment of the necessary trust between countries."

At the Berlin conference and in the 10 May proposals, the USSR provided that limited contingents would remain in Germany, their strength to be determined--Molotov said--by the four powers. He also proposed at Berlin that troops could be returned to Germany for security reasons, a matter not mentioned on 10 May.

The Soviet proposal of 10 May for the first time specified that these troops would be withdrawn by the occupation powers "to their national frontiers."

A Communist-sponsored conference in Warsaw on 6 February 1955 declared that four-power agreement was possible on the withdrawal of all occupation forces from Germany, with the USSR withdrawing all its troops not only in Germany but also in Poland to the Soviet frontier. This proposal was published without comment by Pravda and was never endorsed by Moscow.

East and West German Forces:
At the Berlin conference and on 10 May, the Soviet proposals for troop withdrawal were accompanied by plans for four-power agreement on the size and armaments of East and West German police forces, with inspection to be carried out under four-power control. Moscow so far has never hinted that it would go a step further and suggest four-power agreement on the size and armaments of armed forces in both parts of Germany.

East-West German Talks:
If the Soviet plan took the form of withdrawal of occupation troops and limitation of local forces within an all-European

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security system, the USSR would almost certainly try to leave most of the details of preparing for unity to the East and West German governments, with a minimum of guidance from the four powers.

That was the essence of the Molotov plan at the Berlin conference for a provisional all-German government, and has been a constant Soviet theme.

The East German government has repeatedly emphasized the need of "bringing the Germans together at the conference table." Proposals were made at the Berlin conference and have been made since for all-German committees in the economic and cultural fields and for exchanges of delegations in order to achieve a "rap-prochement" between East and West Germany and prepare the way for progress toward unity.

The Soviet aim in these proposals is, of course, to protect the position of the Communist regime in East Germany as well as possible in any unification scheme.

Soviet-West German Talks:
On 15 January, the USSR announced its readiness to normalize relations with West Germany and said that this step could "contribute to better mutual understanding and the search for more successful paths toward the solution of the restoration of the unity of Germany."

This thinly veiled hint that Bonn could make more progress on unity by dealing directly with Moscow may be repeated before the four powers meet at the summit.

Free Elections: Whether first offered by the East Germans, or in direct talks with the West Germans, or in four-power talks, new and more attractive proposals for German unification appear to be an essential part of a Soviet package.

Since the Western powers have made the free election question the testing point for Moscow's sincerity on the issue of unification, the USSR must try to impress the West with its willingness to accept free elections, however unwilling it may be to carry them out.

The Soviet Union has repeatedly affirmed in recent years its devotion to the principle of free elections.

Molotov said on 6 October 1954 that "the holding of free all-German elections is necessary" to achieve unity, and that four-power agreement on this matter was possible if all agreed that "the chief task is the unification of Germany on a peaceful and democratic basis."

Moscow took its biggest step toward acceptance of Western terms for free elections on 15 January when the Soviet government stated that an agreement on "international supervision of the holding of all-German elections" was possible.

Moscow did not make it clear how effective this would be, but Soviet propaganda said that "supervision" and "control" were interchangeable terms. A more concrete supervision plan would be one new feature that the USSR could add to its previous proposals to persuade the Western powers of its devotion to free elections.

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An East German newspaper added a reservation to the supervision offer by saying that it "could, of course, only have the task of making sure that the elections lead to a democratic Germany in which the basic principles of the international Potsdam agreement are implemented, i.e., demilitarization, denazification and democratization."

The Communist-sponsored Warsaw meeting on 6 February, however, endorsed "free and controlled elections" based on a law "guaranteeing all democratic freedoms, as was envisaged" in the Eden plan proposed at the Berlin conference.

During the Berlin conference Molotov and the East Germans spelled out some of the election provisions they considered necessary.

Fascist, militarist, and other organizations hostile to democracy and peace must be banned. Monopolists and large-estate owners must not be permitted to make election contributions. "Humanist" literature, but not that inciting war or revanchism, must be permitted to circulate throughout Germany.

Although the East Germans have indignantly denied that they want East German electoral laws to be the basis for all-German elections, Deputy Premier Ulbricht did assert that they must be "democratic" and that the East German elections last October achieved a degree of "democracy" unprecedented in German history.

The USSR has preferred to avoid discussing election details, leaving that to East-West German negotiations. It said on 15 January that an electoral law must grant freedom throughout Germany to all "democratic" parties, and must be drafted "with due account being taken of the electoral laws" of

both German states, which suggests a mixture about as compatible as oil and water.

A new Soviet plan for free elections could be presented in one of three ways, depending on what risks Moscow is prepared to take.

If it is willing to give up control over East Germany for a unified, neutralized Germany, it can offer free elections on terms acceptable to the West, to be held as soon as the outlines of a German settlement are agreed on.

If Moscow is unwilling to give up East Germany but is convinced that the United States and Britain would reject a package including neutrality and free elections, it can make an apparently genuine offer for elections at an early date--based for instance on the Eden plan. Moscow would be risking the exposure of its refusal to carry out the plan only if the West accepted the package. In the meantime, the plan would cause confusion and division of opinion in the Western countries.

If the USSR is unwilling to give up East Germany and is also unwilling to take the risk of Western acceptance of neutrality, it can present an election plan which appears acceptable, but which is not scheduled to be implemented until a considerably later time, following the establishment of a security system and the withdrawal of troops from Germany.

German-Polish Border Question: The USSR has remained virtually silent on one other problem which is vital to a German settlement--the question of Germany's eastern frontier. The occasional Communist references to the matter have emphasized that the Oder-Neisse line is permanent. The Communist-sponsored Warsaw meeting in February proposed that Germany's

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frontiers be guaranteed by European countries and the United States.

In future dealings with the Germans, an offer to revise the frontier is Moscow's trump card, but it can be played only at a very heavy cost to the Soviet position in Poland.

Moscow will probably postpone raising the question of a major revision in the Oder-Neisse frontier until it can be expected to have a major effect on Germany's orientation. Such a concession is too expensive and too risky to discuss in preliminary diplomatic maneuvers at this stage.

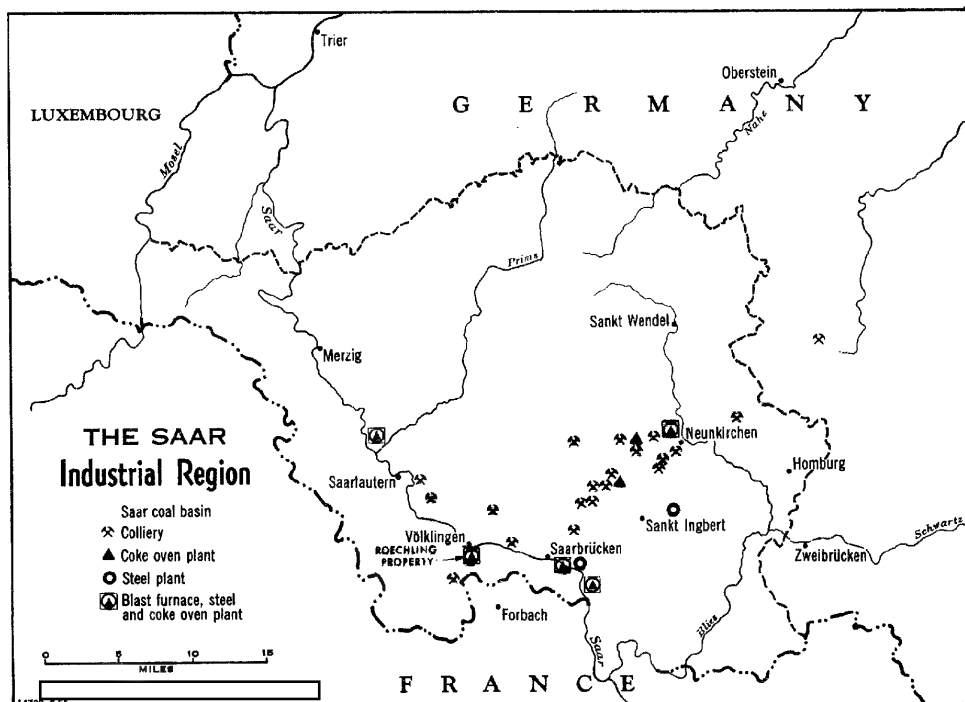
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SAAR STILL KEY TO FRENCH-GERMAN CO-OPERATION

Assumption of formal responsibility for the Saar territory by the Western European Union Council of Ministers on 12 May considerably narrows the area for major French-German policy differences. The territory, approximately 990 square miles with a population of

980,000, will continue to be a source of trouble, however, unless current proposals for a French-German economic "partnership" can be carried out rapidly enough to submerge the conflicting interests of the two countries.



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The Present Saar Agreement

Prospects for a French-German agreement on the disposition of the long-contested Saar territory fluctuated widely in the period after 1952 when Paris first made a Saar settlement a precondition to West German rearmament under the then proposed European Defense Community. France's determination to maintain control of the Saar's rich coal and steel resources was strengthened by West Germany's rapid economic resurgence.

The present Saar agreement, an important part of the recently ratified Paris accords "package," was reached last October after the defeat of the EDC and an accompanying plan for "Europeanization" of the Saar embodying more supranational features than the new agreement.

The agreement gives the Saar a "European statute," subject to a referendum, after which the status of the Saar is not to be questioned until the conclusion of a German peace treaty. The portions of the eventual German peace treaty dealing with the Saar would face a second referendum.

A commissioner appointed by and responsible to the WEU council is to represent the Saar in foreign and defense affairs and to ensure observance of the statute. In other respects, the Saar will be autonomous.

The agreement also provides that certain principles of the post-World War II French-Saar economic union are to be incorporated into an agreement for "economic co-operation." This has already been accomplished. Similar ties between West Germany and the Saar are envisioned.

France and West Germany agreed to guarantee the settlement and to request similar Anglo-American guarantees.

The Role of the WEU Council

On 12 May the WEU council defined the duties and powers of the future Saar commissioner.

The commissioner, who presumably will be a Swiss or a Swede, will have a suspensive veto over Saar legislation which he considers in violation of the settlement.

The council also provided for a five-power commission, excluding French and Germans, to supervise the referendum in which Saarlanders will decide whether to accept the settlement.

The council will announce the beginning of a 90-day "campaigning period" after the Saar government has fulfilled conditions for a free referendum by lifting the bans on pro-German political parties, newspapers and public meetings.

The referendum is expected in September, and Saar premier Johannes Hoffmann has already announced his plans to push enabling legislation through the Saar Landtag. A good majority of the population will probably accept the settlement.

Some 30,000 Saarlanders who had refused to swear allegiance to the postwar Saar constitution will be enfranchised for the referendum. Hoffmann particularly objected to general amnesty for 600 pro-German expellees, but he had to be content with an appeal on the enfranchising of obnoxious individual cases. The Gaullists, who are influential in the Saar, are expected to egg on the Hoffmann government to object frequently.

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French-Saar Relations

The mixed nature of French feeling on the WEU's assumption of control is suggested by a report of 13 May that the Foreign Ministry's official expression of gratification was accompanied by one of "surprise" that the WEU was willing to take decisions on the Saar so soon. The French press, which originally hailed the agreement, seems to feel that France gave more than it got on 12 May.

Now that the Saar is theoretically autonomous, the French-Saar relationship will become increasingly difficult for France to manipulate. France will try simultaneously to maintain a pro-French Saar government and to foster "Saar autonomy" as a long-range counterweight to latent sentiment for reunion with West Germany, while clinging as long as possible to its diminishing direct economic control.

On their part, the Saarlanders want to be further rid of evidences of French control. They strenuously object to the possibility that France will try to endow its future representative in the Saar with the dual diplomatic and economic functions now enjoyed by Ambassador Grandval, a Gaullist who is considered a symbol of the "French occupation."

Saarlanders are also piqued over France's unwillingness to give the Saar government a small controlling bloc of shares in the very important Roechling steel works, the largest enterprise of its kind in the

Saar. Pinay and Adenauer agreed early in May to the establishment of a French-German company--permanently excluding members of the Roechling family, whom the French regard as arch symbols of German irridentism.

German and Saar Reactions

The comparative absence of public German reaction to the WEU council decisions and other aspects of the Saar issue is probably due to pre-occupation with reunification and East-West talks. Many Germans reportedly feel that the French have the Saar so tied up with interlocking political, economic and cultural controls that the prospects for German-oriented political parties will be slim. Adenauer was "profoundly irritated" by French bargaining on the Roechling issue, and by the conclusion, without German participation, of the French-Saar economic convention.

CURRENT FRENCH - SAAR TRADE BALANCE
WITH WEST GERMANY
(In Millions of Dollars)

EXPORTS \$433		IMPORTS \$399	
FR. UNION \$79		FR. UNION \$52	
SAAR \$125		SAAR \$62	
FRANCE \$229		FRANCE \$285	
\$354		\$347	
TO W. GERMANY		FROM W. GERMANY	

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He will press hard to get immediate Saar import quotas for German products as a first step toward the equal economic access to the Saar provided for in the French-German settlement. He has also made it clear that any Saar government headed by Hoffmann, whom the Germans consider a French puppet, is unacceptable to West Germany.

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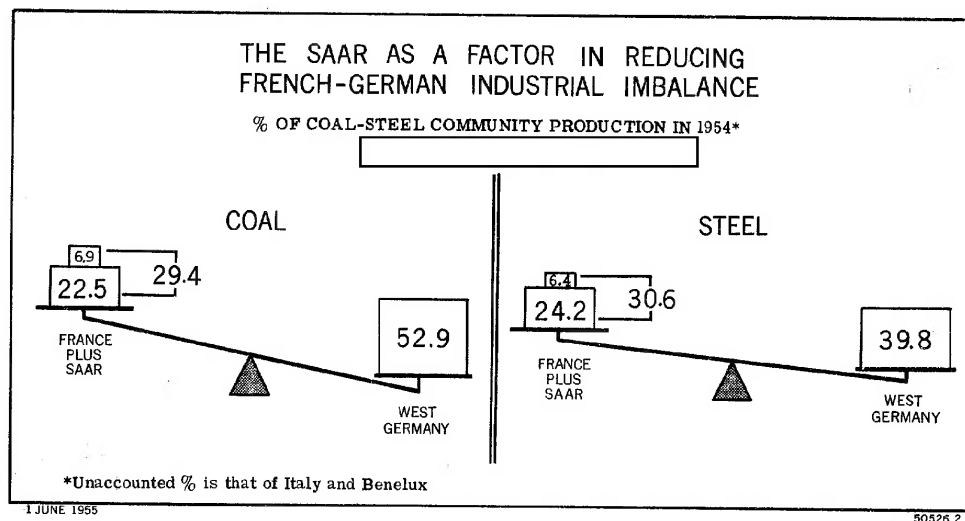
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Hoffmann's stock has gone up in the Saar, however, since Adenauer insulted him publicly and the French characterized him as a tough bargainer. His political hold had weakened following the Saar Socialist Party's break with his Christian Peoples (Catholic) Party last summer over domestic issues, but he is a shrewd politician and is considered capable of waging effective campaigns in the Referendum and in the ensuing Landtag elections.

According to the Saar settlement, free election of a new legislature must follow the

the political side of the Saar problem. Solution of the economic problem behind the French-German friction may lie in early implementation of the proposals made by Mendes-France last October for an economic and cultural "partnership" of France and Germany.

Aimed ostensibly at putting the Saar issue in broader perspective, his proposals envisioned long-term French-German commercial agreements to replace current six-month provisional agreements, bigger German quotas for France's agricultural surpluses and



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referendum within three months, thus satisfying the objections Germany raised to 1952 Landtag elections, in which pro-German parties were barred. Despite the personal rift between Hoffmann and the Socialist leadership, there are reports that the pre-election campaign may see a renewal of the former coalition. The evidence points, therefore, to another Hoffmann government or one similarly oriented.

French-German Co-operation

The WEU machinery is off to a good start as arbiter of

French quotas for German manufactures, a joint Economic Committee and joint Chamber of Commerce, and the canalization of the Moselle River to give France's Lorraine industrial complex a more competitive market position.

He also suggested more scope for German capital investment in France and the "association" of West German interests in the economic development of the French Union, particularly North Africa.

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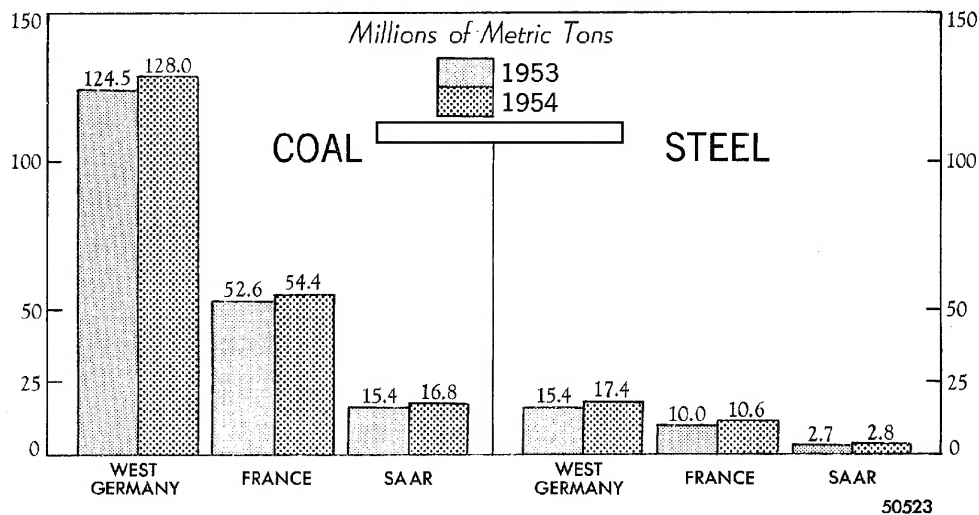
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Progress has been reported on implementing some of these, but French and German political leaders have apparently had to prod their technical experts, who tend to view the program as "ethereal."

Establishment of the joint Chamber of Commerce and of the joint Economic Committee has been agreed. West Germany is accepting double the usual amount of French wheat this year. Pinay and Adenauer also discussed the Moselle canal in early May and agreed to further

concerns German quotas for trade with the Saar. Under the agreement, West German-Saar trade is to be increased immediately with a promise of eventual German economic parity in the territory. French-Saar economic relations are not to be endangered, however, and the franc zone's balance of payments with West Germany is not to be affected. The current favorable balance of the franc zone, particularly the Saar, should facilitate French acceptance of quotas satisfactory to the Germans.

PRODUCTION CHART



negotiations. German Ruhr industrialists will fight to block it.

French policy on projects for further European economic integration, however, has not been clarified; and the Germans are in no hurry to implement these until they see who the French will put forward as candidate for the Coal-Steel Community High Authority chairmanship now held by Jean Monnet.

The economic issue most likely to arise immediately

In the long run, the main source of political discord is expected to be the basic French-German disagreement over whether the settlement, which is provisional in form, is permanent in effect.

France has already announced that it expects the eventual peace conference to maintain the principle of Saar autonomy and that it expects the French position to receive Anglo-American support. The Germans, however, consider that

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the peace treaty negotiations will reopen the entire question.

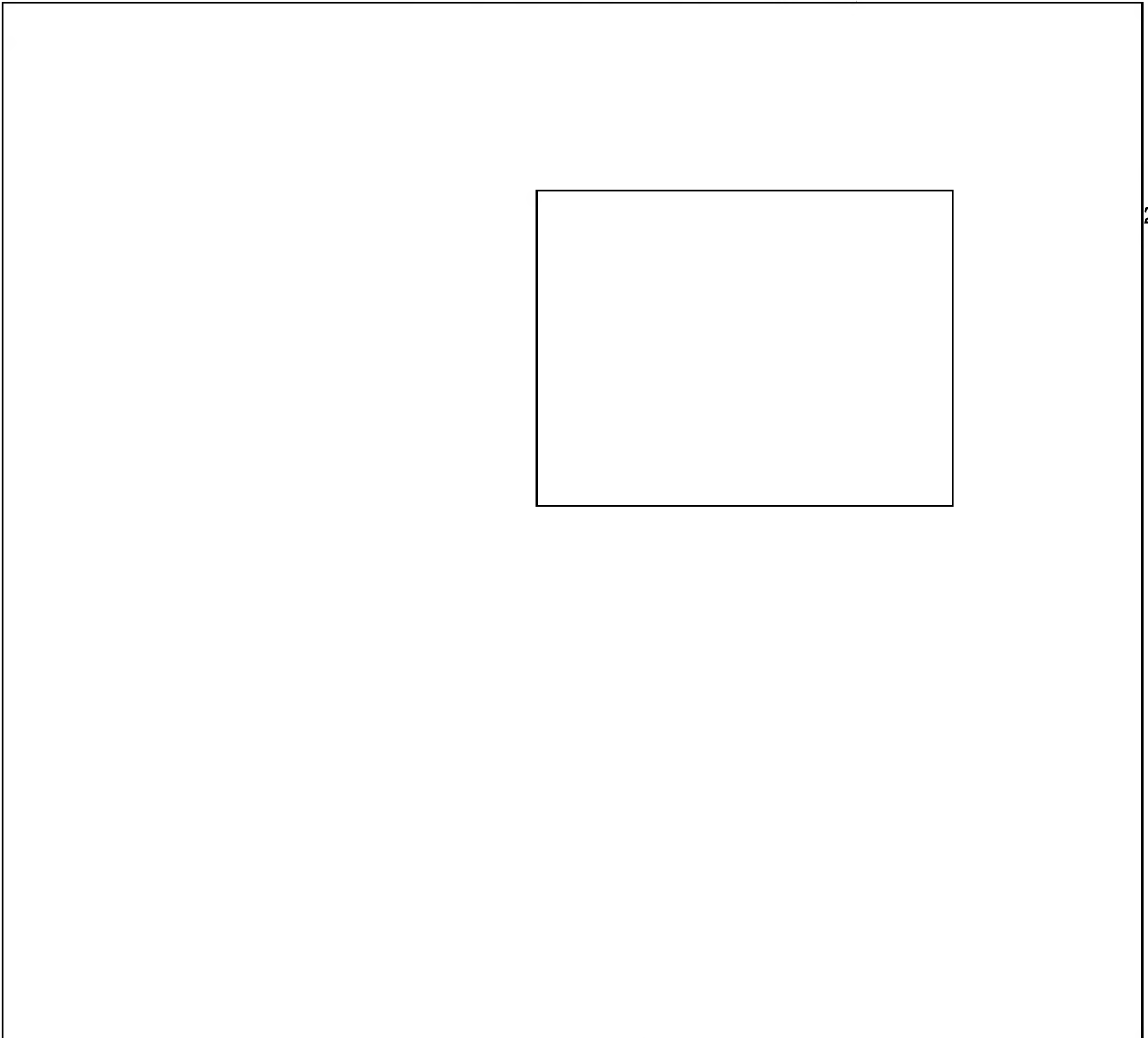
A continued improvement in France's over-all economic position would probably reconcile France to loosen ties with the Saar. If the Germans give

evidence of a real effort toward an economic partnership and momentum toward European integration picks up in France, both countries may be encouraged to moderate previously rigid political positions on the Saar issue.

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